USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 6/15/2005

GAIN Report Number: AR5019

Argentina

Wine

Annual

2005

Approved by:
Robert Hoff
U.S. Embassy

Prepared by:
Francisco Pirovano

Report Highlights:
The CY 2005 crop is of lesser quality than the previous three crops as a result of an excess of rain just before harvest. The Argentine wine industry continues to grow locally and internationally. Locally, more people are adopting the habit of tasting and storing wines. Internationally, the Argentine wineries and their wines are more and more known in the world. Exports have increased every year. The typical Argentine Malbec variety achieved export sales for US$48 million in CY (Calendar Year) 2004. Imports have been negligible due to the high cost of imported product and the inroads made by quality Argentine wines in domestic consumption.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Buenos Aires [AR1]
[AR]

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Section I. Situation and Outlook

Production Areas

Fifteen out of the twenty-four provinces in Argentina produce wine. However, only two stand out as the largest wine producing provinces in Argentina. The traditional provinces of Mendoza and San Juan cover 90 percent of the total area planted with grapes in Argentina. The three northern provinces of Salta, La Rioja and Catamarca cover six percent of the planted area which is the main given to the production of wine grapes. The Torrontes variety is mainly produced in that region. Another region that is gaining importance as a wine producing one, is composed of the valleys of Neuquen and Rio Negro located in southern Argentina (Patagonia) which cover two percent of the planted area. The remaining two percent is shared by the provinces of Misiones, Buenos Aires, Cordoba, Santiago del Estero, San Luis, Chubut, Tucuman, La Pampa.

Planted Area

Total area planted with grapes in Argentina reached 210,000 hectares in CY 2004. In the last three years area planted to grape has increased at an average annual rate of 2 percent. Planted area to wine grapes was 198,000 hectares, 94 percent of the total grape planted area. The rest corresponds to table grapes and raisins. By mid CY 2004, red grapes covered 42 percent of the total wine grape area, rose grapes followed with 34 percent of the area, and white grapes covered 24 percent. Since CY 2000, planted area with white and rose grapes has declined annually around 4 percent each, while red grape planted area has increased by 20 percent. If compared with 1990, red grapes area has doubled from 42,000 hectares to 84,000 hectares, white grapes area has decreased from 60,000 hectares to 47,000 hectares and rose grapes area has follen from 100,000 hectares to 66,000 hectares.

This trend seems to be consistent with the change undergone by the whole Argentine wine industry, where domestic consumption of table rose wine has decreased, and domestic consumption and exports of red wine have increased in the past fifteen years.

High quality red varieties account for most of the increase. For example, the planted area to Malbec variety went from 10,000 hectares in 1990 to 20,000 hectares in 2004. The same happened with Cabernet Sauvignon (2,000 to 15,000 ha), Syrah (600 to 8,000 ha), Merlot (1,000 to 7,000 ha), and Bonarda (12,000 to 16,000 ha).

Production

Grape Production

CY 2005 crop is expected to reach 2.7 million metric tons (MT) five percent higher than CY 2004 crop as a result of the expanded planted area and higher yields due to unusual summer rains. This unexpected rain has been blamed for the reduction in quality of the CY 2005 grape harvest.

The CY 2004 growing season was characterized by good plant health due to favorable weather conditions, which entailed an increase in grape production. Also, good weather conditions (dry and sunny) at harvest implied evenly matured grapes with an excellent alcoholic grade, which yielded wines of superb quality. Driven by a higher international demand for premium wines, demand for top quality grapes increased in CY 2004 and so did their prices.

Grape Production to Crush (MT)				
Kind/Year	**2002**	**2003**	**2004**	**2005***
Red	666,217	683,500	860,000	930,000
White	627,214	600,000	643,000	700,000
Rose	814,401	910,000	999,000	1,000,000
Others**	49,670	28,269	55,460	70,000
Total	**2,157,502**	**2,221,769**	**2,557,460**	**2,700,000**

Source: The National Wine Institute (INV – www.inv.gov.ar)

*FAS Forecast
** Table grapes and raisins

Wine Production

Wine categories

In June 2004 the Argentine National Wine Institute issued a labeling regulation that shifted the way wines are categorized in Argentina. Since then, wines cannot be labeled as fine or table wines but only mentioning the color and variety. For that reason, all the statistics tables in this report have been modified regarding the previous annual wine report AR4032.

Quantity

Despite higher vineyard yields in CY 2005, wine production is expected to decline to 14,1 million hectoliters (Hl) as a result of more grapes sent to crushing for must.

Wine Production (HL)				
Kind/Year	**2002**	**2003**	**2004**	**2005***
White	5,000,000	6,200,000	7,000,000	6,300,000
Colored	6,704,000	6,300,000	7,500,000	6,900,000
Others	991,000	725,000	1,000,000	900,000
Total	12,695,000	13,225,000	15,500,000	14,100,000

Source: The National Wine Institute (INV – www.inv.gov.ar)

Quality

After the harvest is completed, the INV assigns an average alcoholic grade that the wines for that season must not surpass. The alcoholic grade is the real alcohol content at the moment of the test and do not takes into account the potential alcohol in that wine.

In CY 2004, the INV fixed an alcoholic level of 13.39 % volume to volume (v/v) for the wine produced in Mendoza and 13.07 percent v/v for that wine produced in San Juan Province. Due an excess of rain during the summer 2004/2005, CY 2005 wines did not reach the alcoholic grade of CY 2004, i.e., for white wines 12.6 percent v/v and 12.8 percent v/v for wines produced in Mendoza and San Juan.

Must Production

The governments of the two largest wine producing provinces, Mendoza and San Juan, signed an agreement in 2004 which established that a minimum quota of 24 percent of the crush would be left for must production. This was done in order to keep wine stocks at reasonable levels and at the same time satisfy a growing international demand for must.

In CY 2005, this rate was enhanced to 32 percent, which will redound in less grape destined to wine.

There are 25 must processing plants in Argentina. However only 15 of them have the capabilities to concentrate grape juice and export it. One liter of concentrate must at 68 degrees Brix is obtained from four liters of grape juice at 20 degrees Brix. Currently, Argentina produces organic and Kosher must for the international market.

The quality of the must will be lower in CY 2005 due to unfavorable weather conditions in the first three months of CY 2005, when it rained 60 percent of the total annual rainfall; most of the crops were infested with fungi, which reduced fruit quality. Most importantly, the sugar content measured in grams of sugar per liter, is the basis upon which the must producing plants pay farmers. The minimum tolerance is 220 grams. In CY 2005 it will be hard to get to that point, thus prices will be significantly lower than in CY 2004.

Must Production (HL)				
Kind/Year	**2002**	**2003**	**2004**	**2005***
Concentrated	4,428,335	4,300,905	4,699,549	5,800,000
Others	1,019	76,560	142,437	200,000
Total	4,429,354	4,377,465	4,841,986	6,000,000

Source: The National Wine Institute (INV – www.inv.gov.ar)

Consumption

CY 2004 domestic wine consumption declined 10 percent compared with CY 2003 to 11,112,578 Hl. Although now it is more difficult to sort out consumption of different wine qualities (see new categorization of wines), looking into the different containers used in the domestic market allow us to discern the current trend. The five liters jugs and the one-liter tetra-brick have always been used to market table wine in Argentina. Fortunately, Argentine statistics identify wine sold by container or package. Therefore, while domestic consumption of wine in five liters jugs and tetra-brick fell 18 and 14 percent respectively, bottled wine (mostly fine and premium wine) increased nearly 5 percent in CY 2004. It is hard to tell though, how much table wine is traded in bottles for the domestic market, so probably fine and premium wine domestic consumption increased even more.

Wine Domestic Consumption in liters per capita			
Kind/Year	**2002**	**2003**	**2004**
Wine	23.89	22.80	N/A
Others	0.45	0.70	N/A
Total	32.9	33.68	29.87

Source: The National Wine Institute (INV – www.inv.gov.ar)

Trade

Overall wine exports in CY 2004 have dropped 16 percent. However, high quality fine/premium wine exports increased. Although as in the case of the domestic consumption, it is not possible to distinguish between table and fine/premium wine exports anymore, looking at the export value, which increased 27 percent to US$232 million, it is clear that fine/premium wines continue on the upswing. Exports of wines identified by their variety (varietals) increased in CY 2004 16 percent while sparkling wine exports grew 23 percent in the same period. At the same time, exports of unidentified (i.e. lower quality) wines dropped 36 percent.

Wine Export Volumes (HL)			
Kind/Year	**2002**	**2003**	**2004**
Wine	1,219,000	1,827,000	1,529,000
Sparkling	13,476	15,474	18,988
Others	2,278	9,351	5,499
Total	1,234,754	1,851,825	1,553,487

Source: The National Wine Institute (INV – www.inv.gov.ar)

The United States continues to be the top importer of Argentine wines in volume and value with purchases in CY 2004 of 237,000 Hl for US$45 million (in CY 2003 exports to the United States were 146,000 Hl for US$32.5 million). The United Kingdom follows with US$33 million. In volume terms, Paraguay is the second largest importer of Argentine wine with 223,000 Hl. However Argentine wine shipments to Paraguay are mostly composed by low-priced table wine, which value in CY 2004 was US$11 million.

Wine Export Values (US$ FOB Buenos Aires)			
Kind/Year	**2002**	**2003**	**2004**
Wine	121,142,000	163,707,000	224,219,000
Sparkling	7,100,000	4,969,000	6,528,000
Others	161,000	474,000	735,000
Total	128,403,000	169,150,000	231,482,000

Source: The National Wine Institute (INV – www.inv.gov.ar)

Must exports in CY 2004 totaled 723.819 Hl valued at US$73.6 million, making Argentina becomes the top must exporter in the world. The largest market for Argentine must is the United States with US$42 million in CY 2004. Other important markets are: Japan (US$7.5 million), the Russian Federation, Chile and Canada (US$5 million each).

Must Export Volumes (HL)			
Kind/Year	**2002**	**2003**	**2004**
Concentrate Must	700,000	725,178	723,819
Alcoholic must	N/A	68,898	51,660
Sulfate must	47,000	3,890	6,523
Total	747,000	797,890	782,000

Source: The National Wine Institute (INV – www.inv.gov.ar)

Must Export Values (US$ FOB Buenos Aires)			
Kind / Year	**2002**	**2003**	**2004**
Concentrate must	50,000,000	50,816,090	69,227,280
Alcoholic must	N/A	4,906,100	4,215,010
Sulfate must	858,000	51,780	183,320
Total	50,850,000	55,773,970	73,625,610

Source: The National Wine Institute (INV – www.inv.gov.ar)

Imports of wine have remained insignificant after the peso devaluation in February 2002. In CY 2004 imports were mainly of cava sparkling wine from Spain.

Import Tariffs and Taxes		%
Import Tariff	**Outside Mercousr area**	21.5
	Inside Mercosur area	0
Statistical tax		0.5
Export tax		5
Rebate		6

Factors Affecting Industry Structure

Policy
The Argentine Government passed Law No 25849, which created the Strategic Plan for Argentine Wine 2020 (Plan Estratégico Vitivinícola 2002 – PEVI). Article 3rd of this Law, establishes the creation of an agency that will be in charge of promotin consumption of Argentine wine locally and internationally. This new agency is called the Argentine Wine Corporation (Corporación Vitivinícola Argentina - COVIAR). This year, COVIAR began operations.

Prices
Domestic prices for wine have not remained accessible for most classes of consumer. Thus, table wine in 5 liters jugs and tetra-brick is losing competitiveness against beer and other beverages in the range of 0.5 US$ per liter for the lower-income population, which used to having a glass or two of wine at lunch. Good quality variety wines cost between US$2 and 5 per liter. Within this range, most wineries compete for a growing market of middle-income people who have increased their wine consumption over the last ten years. Top quality premium wines are sold in the average Argentine supermarket between US$5 and 12 per liter. These wines are purchased only for high-income people or for special occasions. Top varietal wine prices increased in the CY 2005 nearly 20 percent in dollar terms regarding CY 2004. This phenomenon has also occurred with other food products, and is due to the improvement in the export prices that are automatically transferred to the domestic market. In CY 2004, overall variety wines export prices increased 20 percent from an average annual FOB price of US$1.79 to 2.16 per liter. In this category are found white and red, table and regional, and sweet wines.

Investments
During CY 2004, foreign investment continued to enter the Argentine wine industry. Recently, a new winery was opened through a U.S.-Argentine joint venture. This new winery, is a joint venture between frito-lay and its Argentine partner Rutini.

Section II. Statistical Tables

PSD Table							
Country	Argentina						
Commodity	Wine				(1000 MT)(1000 HL)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
TOTAL Grape Crush	2219	2221	0	2557	0	2700	(1000 MT)
Begin Stock (Ctrl App)	0	0	0	0	0	0	(1000 HL)
Begin Stock (Other)	21270	21264	0	20161	0	23024	(1000 HL)
TOTAL Beginning Stocks	21270	21264	20035	20161	0	23024	(1000 HL)
Prod. from Wine Grapes	12695	13225	0	15500	0	14000	(1000 HL)
Prod. from Tabl Grapes	0	0	0	0	0	0	(1000 HL)
TOTAL PRODUCTION	12695	13225	0	15500	0	14000	(1000 HL)
Intra-EU Imports	0	0	0	0	0	0	(1000 HL)
Other Imports	20	24	0	29	0	0	(1000 HL)
TOTAL Imports	20	24	0	29	0	0	(1000 HL)
TOTAL SUPPLY	33985	34513	20035	35690	0	37024	(1000 HL)
Intra-EU Exports	0	0	0	0	0	0	(1000 HL)
Other Exports	1450	1852	0	1553	0	1500	(1000 HL)
TOTAL Exports	1450	1852	0	1553	0	1500	(1000 HL)
Dom.Consump(Cntrl App)	0	0	0	0	0	0	(1000 HL)
Dom.Consump(Other)	12500	12500	0	11113	0	10500	(1000 HL)
TOTAL Dom.Consumption	12500	12500	0	11113	0	10500	(1000 HL)
End Stocks (Cntrl App)	0	0	0	0	0	0	(1000 HL)
End Stocks (Other)	20035	20161	0	23024	0	25024	(1000 HL)
TOTAL Ending Stocks	20035	20161	0	23024	0	25024	(1000 HL)
TOTAL DISTRIBUTION	33985	34513	0	35690	0	37024	(1000 HL)

Export Trade Matrix			
Country	Argentina		
Commodity	Wine		
Time Period	CY	Units:	Hl
Exports for:	2003		2004
U.S.	145591	U.S.	236563
Others		Others	
Paraguay	192849	Paraguay	222452
United Kingdom	174867	United Kingdom	198987
Russian Federation	279383	Russian Fed.	154113
Brazil	59326	Brazil	112036
Canada	59777	Canada	73659
Japan	65955	Japan	67336
Denmark	44263	Denmark	60915
Netherlands	33503	Netherlands	55981
Germany	35502	Germany	52009
France	30946	France	29710
Total for Others	976371		1032132
Others not Listed	730298		289629
Grand Total	1852260		1553391

Import Trade Matrix			
Country	Argentina		
Commodity	Wine		
Time Period	CY	Units:	Hl
Imports for:	2003		2004
U.S.	0	U.S.	0
Others		Others	
Spain	2042	Spain	1784
Chile	101	Chile	307
Germany	207	Germany	454
France	66	France	240
Italy	8	Italy	118
Total for Others	2424		2903
Others not Listed	5		29
Grand Total	2429		2932

Prices Table			
Country	Argentina		
Commodity	Wine		
Prices in	US$	per uom	Hl
Year	2003	2004	% Change
Jan	106	139	31%
Feb	73	154	111%
Mar	118	142	20%
Apr	80	155	94%
May	88	150	70%
Jun	81	140	73%
Jul	96	143	49%
Aug	82	147	79%
Sep	65	150	131%
Oct	102	178	75%
Nov	119	140	18%
Dec	134	154	15%
Exchange Rate	2.9	Local currency/US $	
Date of Quote	6/10/2005	MM/DD/YYYY	